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SUBJECT: A/S CHRISTOPHER HILL FOCUSES ON PHILIPPINES GROWTH
POTENTIAL DURING MANILA VISIT

¶1. Summary. During his visit to Manila on July 31, EAP Assistant Secretary Christopher Hill gained a firsthand view of advantages and

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challenges to U.S. business investment in the Philippines by touring two E-services facilities and attending a working lunch with representatives from U.S. businesses. A/S Hill also discussed the strong economic relationship between the U.S. and the Philippines and the importance of strengthening ties in Southeast Asia in a speech to university students and faculty. End Summary.

E-Service Industry Booming

¶2. During a visit to U.S. E-service companies, leading call center market specialists outlined goals for A/S Hill and Ambassador Kenney: enlarge total market share from 4% to 10% by 2010; expand revenues from \$1.2 billion to \$12 billion; and increase employment from 100,000 to 500,000. A/S Hill visited ICT Group, a call center with 3000 employees fielding customer service calls from the United States, and eData Services, a business process outsourcing (BPO) operation providing records transcription and software development to U.S. physicians and hospitals, attorneys, and health insurance providers. eData Services operates 24/7 with a staff of 300 Filipino employees.

¶3. BPO operations have distinct advantages in the Philippines: lower labor costs are lower than other S.E. Asian competitors; two fiber optic backbones encircling the country; and an English-speaking population. However, staff retention and space limitations are potential barriers to business expansion. To address these issues and maintain competitive pricing advantages, many BPOs plan to locate call centers outside Manila and work with the GRP to provide additional English language training to recruits.

American Business Representatives

¶4. A/S Hill, the Ambassador, and Embosffs met with representatives from various U.S. businesses over lunch to discuss factors impacting investment in the RP. Representatives included officials from the banking, food, energy, e-services, manufacturing, travel, and pharmaceutical industries. These businesses articulated successes and challenges in their sectors. On the positive side, the call center/BPO sector is experiencing significant growth with businesses expanding operations to provincial areas. The GRP is encouraging call centers to hire the 30,000 overseas workers returning from

Lebanon, enabling them to remain in the RP. Proposed asset sales in the energy sector are encouraging. The Philippines is preparing to privatize the National Power Corporation and Mirant, a U.S.-based company, is selling its power plants, potentially diversifying significant investment revenue.

15. The executives described factors that may impede future investment in the Philippines. Companies in the manufacturing industry noted a 6% to 7% drop in purchasing power due to higher taxes, increased fuel and electricity costs, and a stronger peso that has reduced the value of dollar remittances. Another concern is the constitutional prohibition on foreign land ownership. (Note: Constitutional reform, currently under debate, would likely remove this prohibition.) The education system has declined, with overcrowded classrooms and the best-qualified teachers seeking employment in the U.S. and overseas. English fluency has decreased over the past 20 years, diminishing the pool of qualified employees for U.S. businesses.

Philippines' Regional Role

16. A/S Hill spoke to university students and faculty about the strong relationship between the U.S. and the Philippines and the importance of working with other countries in the region to strengthen economic ties and regional security. A/S Hill underscored the importance of the relationship between the U.S. and ASEAN, in light of the Philippines hosting the ASEAN Summit this year. He expanded on regional issues and noted that the Philippines' successful development of democratic institutions serves as an example to China. A/S Hill expressed concerns about Burma and North Korea, describing both as being "out of step" with the rest of Asia, and emphasizing that multi-lateral approaches will be necessary when working with these countries. With 5% GDP growth and good telecommunications, the Philippines is successfully attracting international investment, but needs to develop its

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infrastructure for greater investment inflows. A/S Hill acknowledged the contributions of Filipino-Americans to the close ties between the U.S. and Philippines. While the U.S. will continue providing assistance with programs such as the Millennium Challenge Account, A/S Hill said he has confidence in the country's ability to solve its own internal problems.

17. A/S Hill did not have the opportunity to clear this cable.

KENNEY